COUNTY OF SAN LUIS OBISPO

AUDITOR • CONTROLLER • TREASURER • TAX COLLECTOR
1055 MONTEREY ST. RM. D290
SAN LUIS OBISPO, CA 93408
(805) 781-5831 • FAX (805) 781-5362
http://sloacttc.com

JAMES P. ERB, CPA
Auditor-Controller
Treasurer-Tax Collector

James W. Hamilton, CPA
Assistant

TO: DAN BUCKSHI, COUNTY ADMINISTRATIVE OFFICER

FROM: JAMES P. ERB, AUDITOR-CONTROLLER-TREASURER-TAX COLLECTOR J.E.

DATE: APRIL 22, 2015

SUBJECT: 2015 ANNUAL DEBT REVIEW

The County's debt management policy contains the following language:
"The County Administrator should report at least once per year to the Board of Supervisors confirming whether the County is in compliance with legal debt limitations and also commenting on the County's overall debt burden as to prudent levels for future budget management and maintenance of strong credit ratings." The Auditor's Office is providing this information pursuant to the debt policy requirement.

Legal Debt Margin:
The County's Comprehensive Annual Financial Report (CAFR) contains a 10 year history of the legal debt margin. As of June 30, 2014, SLO County's legal debt limit was calculated at $538,249,000 based on a factor of 1.25% of total assessed values. The County's total debt applicable to the legal limit was only $10,489,000, SLO County is safely well under the debt limit. The County was below the legal debt limit for each of the 10 years displayed in the CAFR. There was no new general fund debt issued during fiscal year 2014/2015, therefore the County remains in compliance with legal debt margins.

Current Debt Burden:
SLO County has several other types of debt outstanding. These include Certificates of Participation (COPs), Pension Obligation Bonds, and Revenue Bonds of various types. These issues are not directly serviced by a levy of property taxes, and so the legal debt limit does not apply. Nevertheless, it is important to carefully monitor and control the level of these obligations. This is to maintain a strong debt rating and to prevent debt service from absorbing too much of available resources. Accordingly, the adopted budget for the County Administrative Office includes a performance measure with the goal of keeping annual general fund backed debt service to no more than 5% of the annual general fund budget. Bond rating agencies generally agree that 5% or less is an indicator of a manageable debt load.

As of June 30, 2014, the outstanding principal balances due as reported in the CAFR are $345,074,000 for business type activities. This is debt of our enterprise funds, the largest portion of which is $187,170,000 for the Nacimiento Water Pipeline. These debts are serviced by charges to users or to contracting cities and districts, not the County General Fund. During the current fiscal year, $7,288,000 of business type debt is scheduled to be retired.

As of June 30, 2014, the CAFR showed outstanding principal balances due of $137,019,000 for governmental type activities. This is debt of our general and special revenue funds, the largest portion of which is $111,234,000 of Pension Obligation Bonds (POBs). During the current fiscal year, $6,070,000 of this debt is scheduled to be retired.

The County's 2003 Series A POB is scheduled for a final payment in September 2017. The principal balance of the 2003 Series A was originally $44,305,000. In September of 2018 the County begins making payments on the 2003 Series C Bonds. The principal balance of the 2003 Series C is $44,199,398. In September 2019 the County will make a final payment on the interest only 2009 Series A (refinanced the 2003 Series B). At that time a principal payment of $42,565,000 is due and we are planning to pay all or a significant portion. Currently we have set aside $17,586,880 for that purpose.

For the current 2014-2015 fiscal year, approximately $2,072,000 of debt service principal and interest on COPs and $9,170,000 on POBs is budgeted to be paid from the general fund, in addition, $485,000 of COP debt service paid for by the Golf Enterprise fund is backed by the General Fund. This represents about 2.68% of the general fund budget, significantly within the targeted level of no more than 5%.

Current Status and Outlook:

All scheduled principal and interest payments for fiscal 2014-2015 have been made on time.

One of the many requirements to participate in bond issuance is that a biennial credit rating is calculated by an independent rating agency. Credit ratings are used by investors to determine the risk involved on any debt issuance. On April 17, 2014, Fitch upgraded the County's implied general obligation rating to AAA from AA+. A rating of A is the third highest rating and denotes investment grade debt issuance. AAA rating denotes the lowest expectation of default risk and is assigned only in cases of exceptionally strong capacity for payment of financial commitment

Recent New Debt:

On June 30, 2011, the County entered into financing agreements with the State Water Board for a loan up to $79,920,000 to partially fund the Los Osos Wastewater Project. These funds will be drawn down as needed to complete the project. It is estimated that a maximum of $75,957,000 will be drawn to fund the project. This is not a County General Fund obligation.

In May 2012, the Public Works Department sold $83,129,000 in Limited Obligation Improvement Bonds to the United States Department of Agriculture (USDA) to fund the remainder of the Los Osos Wastewater Project. These bonds are not a County General Fund obligation.

On July 18, 2013, the Public Works Department sold $1,621,000 in Certificates of Participation to the USDA to fund waterline improvements and tank rehabilitation in County Service Area 10A (Southern Cayucos Water System). This is not a County General Fund obligation.

Anticipated New Debt:

Other possible debt issuances within the next year or two could include a bond sale to the USDA to fund the Arroyo Grande Creek Levee Improvements and two new water tanks in southern Cayucos. However, the timing and amounts are not certain at this time. These also would not be an obligation of the County General Fund.

Other possible debt issuances may include an advance refunding of approximately $119,000,000 of Nacimiento Water Bonds to take advantage of lower interest rates. The advance refunding will not increase the life of the bonds but should reduce annual debt services requirements by $400,000 to $600,000, a savings that will be passed to the water customers.

In addition, the County is considering building a new airport terminal as well as a new animal services facility. The airport terminal is expected to cost close to $33,000,000. Approximately $20,000,000 would be contributed by the Federal Aviation Agency in the form of a grant. The County would need to issue debt to cover the remaining balance of $13,000,000. The airport terminal debt service would be funded with annual Passenger Facility Charges and revenue from Airport operations. The animal services facility is in the beginning stages of determining the funding and structural design. It is anticipated that a new facility will cost close to $12,000.000. Since the County provides services for all the incorporated cities it is the hope that they would participate in the funding of the desperately needed facility.